

*MicroSave*

*Market-led solutions for financial services*

# Microfinance for Water and Sanitation: Opportunities and Challenges for MFIs

## Background: A Case for Household Investments for WASH Financing



Access to safe and affordable water, sanitation and hygiene (WASH) infrastructure and services is essential to improve the quality of life of people. Yet [2.4 billion people lack access to improved sanitation facilities and 663 million people lack access to safe drinking water globally](#). Consequently, access to safe water, sanitation, and hygiene forms a core part of the UN [Sustainable Development Goals](#).

It aims to achieve universal and equitable access to safe and affordable drinking water and enable access to adequate and equitable sanitation and hygiene for all by 2030. World Bank estimates that [USD 1.7 trillion is needed to meet these targets](#). The data suggests that public finance by itself will not be enough and private investments or innovative financing approaches are needed.

## ***Why use microfinance for WASH financing?***

Low-income households are unable to access WASH infrastructure in a low-cost manner. *MicroSave's* research shows that in parts of Asia, building private toilets can cost up to USD 400 per household, while piped water connections cost around USD 150 (Refer [here](#) and [here](#)). Our research also reveals that the poor have more salient priorities, like education and health, that tend to consume their liquidity. WASH improvements that need “lumpy investments” (large sums of money) thus take a back-seat.

Interestingly, the credit products that most microfinance institutions (MFIs) offer fall into the “sweet spot” of WASH investments. Globally, MFIs have honed systems and processes to offer credit in the range of USD 100 to 500, while repayments are staggered over a period of six months, a year, or even longer.

Research shows that a [considerable market potential for microfinance](#) in water and sanitation. The question remains – can this transform into a sustainable business opportunity for MFIs?

WASH finance differs from productive loans in a significant way as these loans do not generate visible income streams. Several strategic and operational issues determine the suitability of a WASH finance product. Some of the key points include:

- **Ecological Factors and presence of WASH public infrastructure:** The favourability of key hydro-geological factors has a direct bearing on the uptake of WASH equipment and services. These include land gradient, thickness and quality of topsoil, and availability of proximate water sources. For instance, if an MFI provides credit for constructing toilets in a region with a chronic shortage of water, it will be only a matter of time before the client relapses into the habit of open defecation.

Similarly, the availability of public WASH infrastructure like sewer lines or main pipelines for water influences the pick-up of WASH services in a favourable way. MFIs need to select the geographies where they are more likely to succeed with care.

- **Existing awareness and use of existing WASH infrastructure:** *MicroSave's* customer research shows that WASH facilities are in demand most when the existing infrastructure is in ‘active use’. We found that the demand for toilets tend to be high in villages where a sizeable population uses sanitation facilities – either private or community-based. The reasons are easy to understand: as usage increases, adverse public opinion about open defecation gathers strength. Over time, more and more households build their own toilets. Thus, people are more likely to access finance to upgrade and acquire WASH systems in a conducive environment.

- **Collaborations with WASH product or service providers:** In several geographies, WASH product manufacturers and service providers exist who are unable to tap into the low-income segment due to high upfront costs. MFIs can collaborate with such entities and make use of the existing market demand for these services. SMEP, an MFI in Kenya, has collaborated with water tank manufacturers to provide loans for water storage structures. Similarly, Bank Syariah Mandiri, a commercial bank in Indonesia, offers loans for piped water connections from the local public water supply agency.
  - **Availability of long-term funding for WASH:** MFIs in many countries depend on debt-funding from banks and financial institutions to finance their portfolio, but these funds are restricted to “income generating or productive activities”. The asset–liability mismatch is another issue. A WASH loan is often of a longer tenure. An MFI that receives a shorter-term loan exposes itself to liquidity risk if it offers a WASH loan. So, MFIs may have to look for more tailored sources of funds or explore social investors or patient capital to raise funds for WASH finance.
  - **Technical capacities to assess WASH infrastructure:** MFIs must have access to technical capacities to understand the feasibility of setting up WASH infrastructure to fulfil different WASH needs. Such infrastructure includes groundwater levels, the availability of public sewerage facilities, and the type of products available in the market. It may be helpful to engage external agencies when in-house capacities are limited. Developing an understanding of these aspects will help the MFI design tailor-made products and enter into service contracts with WASH manufacturers and service providers.
- Customer education and awareness are key for product marketing:** The importance of customer education and awareness generation is a key ingredient for product uptake. For example, an increased awareness of the adverse health impacts of impure water or open defecation can lead to greater adoption of either water filters or hygienic toilets or both. Partnerships with NGOs can be a useful strategy to implement such information campaigns. For instance, Grameen Koota, an Indian MFI, works with an NGO, Navya Disha, to generate awareness among its customers before introducing financial products to support WASH activities.

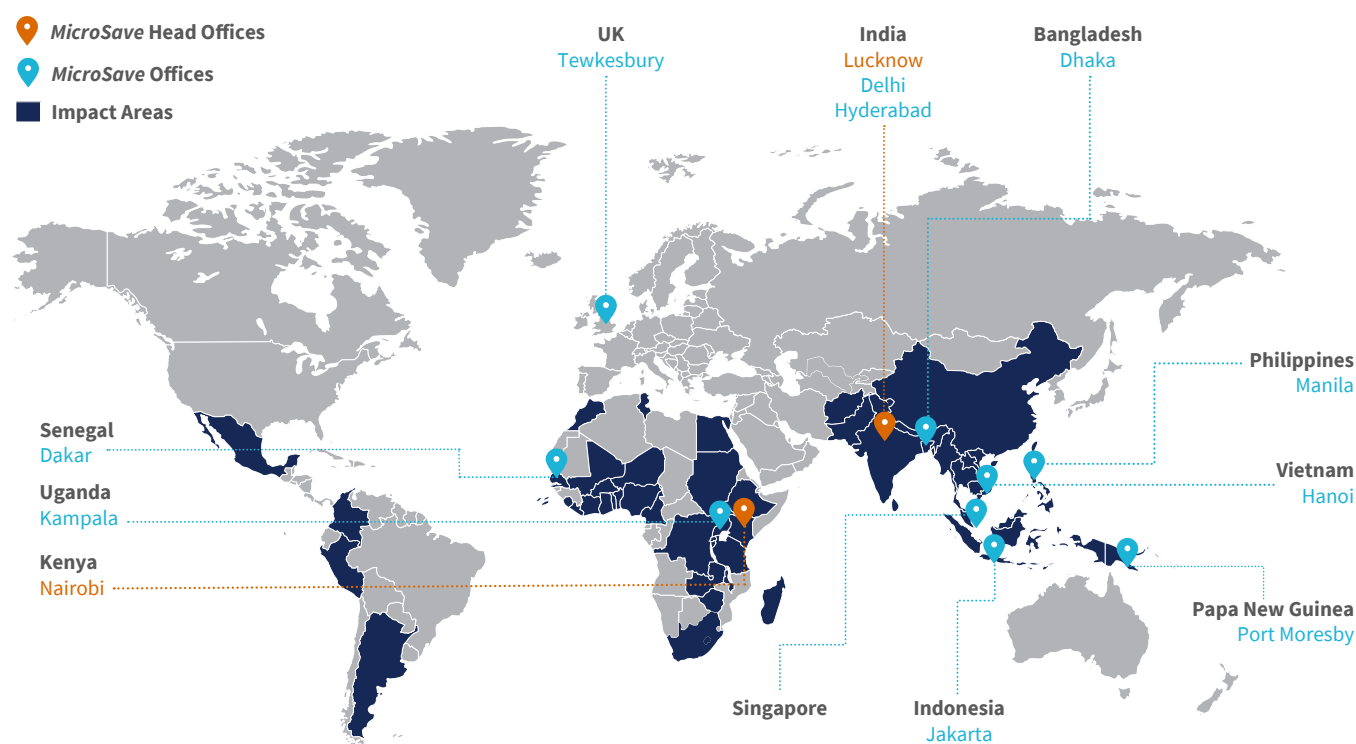
WASH presents an exciting opportunity for MFIs to have a meaningful impact on the lives of their customers and aid in their struggle against poverty. Yet MFIs have to consider the issues discussed so far to tap into this opportunity in a sustainable way.

To help MFIs navigate through the issues, *MicroSave*, together with Water.Org, has developed [a series of toolkits](#). These toolkits would help MFIs develop and manage WASH finance products. The toolkits draw on successful WASH finance programmes and contain practical examples and detailed guidelines on various aspects to manage a WASH finance programme.



## About *MicroSave*

*MicroSave* is an international financial inclusion consulting firm with nearly 20 years of experience, operating in eleven offices across Asia and Africa. Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services for all. We guide policy, provide customised strategic advice and on the ground implementation support.



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